THE PANIC AT NEW YORK.

BY A. D. NOYES.

By common consent of both home and foreign observers, the "bank panic" which raged in New York toward the end of October surpassed, in respect to violence and magnitude, anything of the sort previously witnessed on any market of the world. This does not necessarily mean that the wreck of credit, confidence and prosperity in a larger sense, such as is usually associated with financial panics, is now or is likely hereafter to be serious in proportion. On the contrary, general judgment is that the business situation is fundamentally sound, that the extraordinary events of the recent weeks have been confined, in a peculiar way, to Wall Street, to the banks and other institutions which serve Wall Street, and indirectly to the country's banking system as a whole.

What is meant, when it is said that the panic itself was of so unusual and portentous a magnitude, is that the transactions involved in the run of depositors upon trust companies and banks and in the measures of relief surpassed all precedent. It has been generally estimated that upwards of $40,000,000 was actually paid out over the counter by the two trust companies on which the run particularly converged. So enormous was this demand, and so persistent was its continuance, that the sum, approximately, of $40,000,000 cash deposited by the Treasury with the New York banks was practically all swallowed up in providing these companies with the cash requisite to meet such demands. It might be added that the number of depositors actually in line at the climax of the run, on Thursday, October 24th, was greater than in any episode of the kind of which we have any record, and that men of long experience in the vicissitudes of banking cannot recall a single precedent in which an institution has stood up for three days, as the two trust companies did, against a con-

tinuous and unabating run, without either restoring confidence or closing its doors.

First, a word as to exactly what were the events of this extraordinary episode. Although it was far from being imagined at the time that such consequences were in store, the trouble really began on October 15th and 16th, when the difficulties of the Mercantile National Bank reached a crisis. To those who simply read the account of that episode, it appeared like an ordinary incident in New York finance. The stock of the United Copper Company, which had declined for some time very heavily on account of the fall in the metal's price, suddenly seemed, in that week, to have been cornered. On the curb, where dealings in it are conducted, the price shot up in a few days from 37 to 60; it then became known that a young copper operator, the largest owner of the property, had attempted to corner what he believed to be a "bear" interest, which had sold the stock short and which he did not suppose to be able to deliver the actual shares if they were called for. The plan of a corner went astray; the stock was actually delivered, and the brokers immediately engaged in the operation for the rise, unable to pay for the stock delivered, suspended payments.

No one dreamed for a moment of associating these events with a coming Wall Street panic, since the stock was not actively dealt in or largely held by Wall Street or the public, and since such things occur at frequent intervals without creating more than a ripple of excitement. In a quiet way, however, it soon developed that the Mercantile National Bank, which was also under the control of the copper operator referred to, had been backing the operations in United Copper and was financially embarrassed as a result of it. According to the usual rule, the bank applied to the other banks of the New York Clearing House for help. The committee of that institution examined the Mercantile's books; and, finding the institution solvent at bottom, arranged for the advancing of sufficient sums to it by other banks to tide it over its difficulties.

So far, the general public took slight interest in the matter. On Monday night, October 21st, however, application was unexpectedly made for help to the same associated bankers by the Knickerbocker Trust Company, the third largest institution of that class in New York City. Apparently, it had become em-

barrassed in somewhat the same way as the Mercantile National Bank; at all events, when its books were opened to the committee of bankers called to examine it, the committee did not find its assets in such condition as to warrant them in granting help. How far this was due to loose banking methods on the part of the institution, and how far to actual impairment of its securities, is not likely to be fully known until the receivers now in charge of the Knickerbocker make their report. A run of depositors on the institution began the ensuing morning, and was followed promptly by the closing of its doors. By this time, the public mind appeared to have taken alarm; on the ensuing day, October 23rd, the Trust Company of America, another of the largest institutions of the sort in New York City, having been recklessly named by a morning paper as being in trouble, was besieged by its depositors. Most unfortunately, the announcement of the Knickerbocker's troubles of the day before had been coupled with assurances that abundant relief would be provided under the auspices of powerful international bankers. These assurances were wholly without warrant, as was shown by the company's suspension. But the evil result of this part of the incident was that, when similar assurancess were made, with abundant justification, in the case of the Trust Company of America, no one believed them. Repeated statements that $15,000,000 or more in cash would be placed at the institution's disposal were received by depositors with incredulity; the run began in force at the Company's main office and at all its branches, and continued from Wednesday morning until the close of business at noon on Saturday.

Meantime, the Lincoln Trust Company, regarding whose soundness no hint or rumor was made by any one conversant with the facts, found itself face to face with a similar run, caused apparently by the mere fact that it served the same class of depositors as the Knickerbocker and the America. This was the real beginning of the panic. From the day when the run on the Trust Company of America became serious up to the close of the week, runs on one or another bank or trust company in New York broke out in all directions. The senseless panic which at such times seizes on depositors, the contagious fear that, if they did not get their actual money quickly, they would be unable to get it at all, so far affected the public at large that few institu-

tions wholly escaped its influence. Early in the week, and long before the dozen or so minor banking failures which occurred on October 23rd and 24th, the Secretary of the Treasury, whose available cash balance amounted then to more than $100,000,000, came to New York, announcing promptly that he would deposit Government funds with entire freedom in New York banks, on the collateral approved by law, thus equipping them to deal with the unreasoning panic. During the week, he placed an amount not far from $40,000,000 of actual cash with national banks in New York City, taking from them as collateral such securities as were authorized in last year's Aldrich Act. This enormous sum of money was turned over by the banks on their own account, presumably in the form of loans, to the two beleaguered trust companies, which were thus and only thus able to make stand against the amazing run of depositors upon them.

The astonishing fact about this panic outbreak was the slowness with which these measures, designed to meet the panic, had effect. This part of the phenomenon is not wholly easy to explain. It failed to follow what had previously been regarded as the normal and invariable precedent in the history of bank runs. Before the week was over, public disturbance had grown so greatly as to create uneasiness, as to maintenance of payment, on the part of dozens of perfectly solvent institutions. It must be remembered that a very considerable part of the cash thus withdrawn from the trust companies and the banks was locked up by the depositors in safe-deposit vaults, thereby disappearing completely from circulation. Nor was this all; for, as always happens on occasions of this sort, interior banks which carry large balances at New York began to call home their money. Remittances of this sort during the week ran as high as $14,000,000, while $5,000,000 or $6,000,000 in the crop-moving period has hitherto been regarded as unusually large.

This will explain the situation created toward the close of the week, when the maintenance of cash reserves became a matter of abnormal difficulty to all banks, and of flat impossibility to many.

Into the details of this part of the episode it is unnecesary to go further. The New York bank statement issued on Saturday, October 26th, showed that these institutions, notwithstanding the fact that the run of depositors had converged not at all upon

them, but upon the trust companies, had lost in the week no less a sum than $12,900,000, and that a surplus of $11,000,000, a week before, over the 25 per cent. reserve required by law, had been replaced by a deficit of $1,200,000. The point of real importance was that a sum of upwards of $20,000,000 cash had disappeared from the channels of New York circulation in the compass of three days, and had disappeared as completely as if it had been engulfed in an earthquake. The incidents which marked the close of the extraordinary week, the arrangement of the Clearing House banks to assist one another, where necessary, through use of the Clearing House loan certificate plan familiar in all preceding panics, and eventually the breaking of the deadlock which had occurred in foreign exchange, and the engagement of large sums of gold in London for relief of the New York market, were the sequel. It is through these two expedients that all previous severe panics in the history of New York have been met and conquered, and there is not the slightest cause for doubt that they will be effective in dealing with the present situation.

It need only be remarked, in concluding this preliminary description of the episode, that the Stock Exchange was for a time, on Thursday, October 24th, confronted with imminent panic of the most formidable sort, brokers being completely unable to procure from banks the money requisite to meet their mutual engagements. This grave possibility was averted through the drawing on their legally required 25 per cent. cash reserve by the New York banks, and through the effective appeal to London's capital. During the whole of this episode, Mr. J. P. Morgan was in command of the banking forces, his personal prestige and powerful influence over other bankers going far toward insuring united action. The relief which finally came through London was, it may be observed, rendered readily feasible, first, by the fact that, with stocks selling down at bargain figures, Europe bought them in quantity, and that, by a fortunate coincidence, the world's wheat trade situation, with shortage in Europe's crops, was so great as to make appeal to America for wheat on an unusual scale imperative.

When, however, all these superficial incidents of the October panic of 1907 have been considered, it remains to ask how such a state of things could possibly have come about, and why, in this period of admitted American prosperity, the outburst of panic

fright should have taken such formidable proportions. To such an inquiry there are several answers. One has to do with the warning sounded in the financial markets during many months, to the effect that the whole world's demands on capital had passed beyond available supplies. This somewhat technical statement of the case means simply that, in the unprecedentedly rapid expansion of the world at large, and notably in America and Germany, neither the stored-up wealth of banks and individuals, nor the credit which institutions could base upon that wealth, was sufficient to conduct it. This situation has for months past been accepted as the true cause of the abnormally heavy decline on the Stock Exchange at New York especially; withdrawal of capital from speculative markets of that sort being the line of least resistance toward provision of requisite supplies for general industry. It will readily be seen that a situation of this sort must, at least in some degree, complicate such a situation as arose in New York in October—if, indeed, it did not cause it, to the extent that facilities on which ill-judged financial undertakings had been carried were of necessity withdrawn, thus forcing the downfall of the financial exploits themselves and, in some cases, of the institutions which had backed them.

This consideration, however, cannot be deemed wholly satisfactory as explaining why the New York crisis should have developed with such amazing violence, and, in particular, why the public's panic should have been so unprecedented. For this phenomenon, it is imposible to ignore the fact that a partial explanation is to be found in the public mind through certain financial scandals of the past few years, and particularly of a few weeks immediately preceding the panic. That the life-insurance episode profoundly impressed the American people with a feeling of distrust towards capitalists in conspicuous positions, and that the recent exposures in the street-railway investigation deepened the impression, it is impossible to deny. Treating the recent panic from a purely psychological point of view, one must admit that the public mind was itself in an abnormal state, that responsibility for such conditions lies at the door of men who had given cause for such feeling in their own case, and that the outbreak of absolute distrust of banking institutions as a whole, which certainly seemed for a day or two to characterize this New York panic, was a not wholly unnatural result.

When this is said, however, there remain two other considerations which must be briefly mentioned. First, is the fact that trust companies, on which class of institutions the storm broke most fiercely, have themselves prepared the way for an episode of the kind by the ill-guarded position in which they have maintained themselves. Not to go at too great length into a somewhat technical question of this sort, it must be pointed out that a great number of these institutions, chartered and organized under a law which contemplated merely a business in which the bank would replace an individual trustee, had gone beyond that field and passed into the general deposit banking business on a scale which even the banks of New York had not reached a generation ago.

In doing this general banking business, the companies did not overstep the letter of the law; that they overstepped its spirit is contended by a very great part of the conservative banking community; in particular, the statute under which they operated not only surrounded depositors' money with imperfect restrictions as to the carrying of a cash reserve, but allowed the trust companies to enter fields, such as real-estate operations, which the law for deposit banks very properly denies to those institutions. So long as the financial skies were clear, all this went well enough; it was when the storm broke on the heads of these companies that they had to learn the lesson which the deposit banks learned fifty years ago. It is quite impossible that this episode should pass by without bringing the public and the Legislature face to face with the necessity for revision of the law.

President Roosevelt's speeches and policies have been frequently cited as a contributory cause. That Mr. Roosevelt will suffer politically from this panic episode no experienced student of history can doubt. Reaping the benefit and enjoying the prestige of the "boom times" from 1901 to the present year, which were due to underlying facts which he and his policies neither controlled nor caused, it is inevitable, and politically speaking it is just, that his prestige should suffer when the times have changed. The history of popular government is remorseless in its exaction of this penalty; the powers that be, to which are ascribed the prestige of the prosperity which happened to surround their term of office, must be equally prepared to be

loaded with obloquy when business conditions change. But that President Roosevelt's policies or speeches actually caused the financial collapse of October is a stretch of inference comparable, in my judgment, to that which placed on President Cleveland the personal responsibility for causing the panic of 1893. With the world-wide strain on capital, which forced the Bank of England's abnormal 6 per cent. rate last year, and which caused financial collapse in Holland and grave financial disorder at Berlin, before the New York crash; with the distrust instilled in the public mind by revelations of breach of trust by managers of great corporations; and with the unsound banking law and unsound banking practices which were the immediate cause for the breakdown in New York City, Mr. Roosevelt had no more to do than Mr. Cleveland had to do with the failure of the rotten farm-mortgage companies of fourteen years ago and the run of depositors on the Western "chain of banks." That his very recent speeches were indiscreet, in the sense that all needless agitation, at so critical a juncture, should have been avoided, appears to me incontestable. But they did not cause the panic.

Whether the fact that the "boom" of 1901, the furious speculation for the rise which culminated in that extraordinary April, and the plunge of the general public on an unprecedented scale into operations of the sort, was not in a certain way a forerunner of an equally violent psychological reaction in the fulness of time, is an interesting question. Certainly the financial phenomena of the past half-dozen years, in the United States and in the world at large, have been repeatedly described as breaking all precedents in history, and precedent might with some logic have been similarly broken in the violence of this first real reckoning with the bank depositor since the boom of 1901.

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